

Secure Retirement

For Iowa's Public Employees



IOWA PERS[®]

Working Today for Your Tomorrow

Presented to the Public Retirement Systems Committee

Donna M. Mueller, CEO

October 23, 2013

Our Mission & Vision



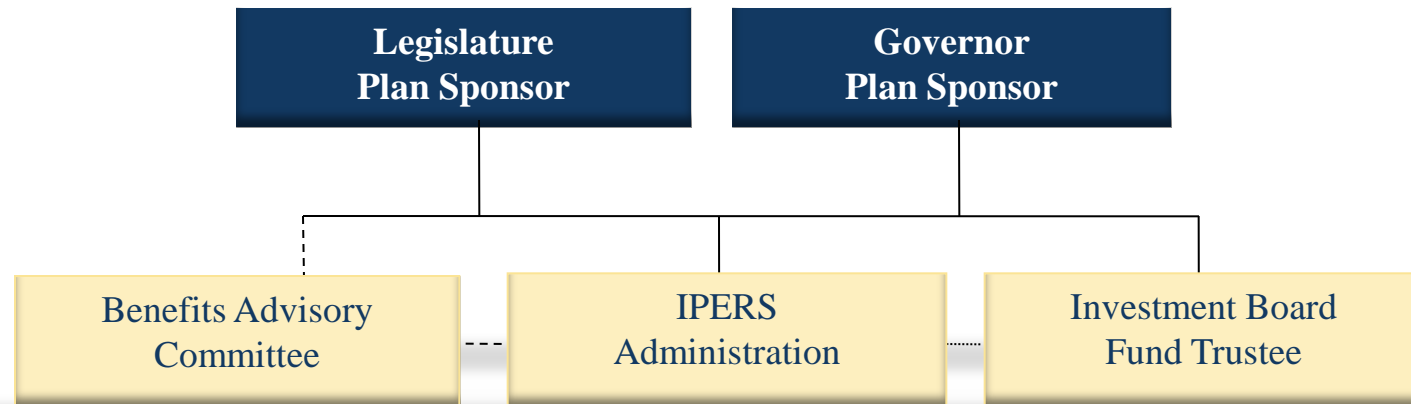
MISSION

Administer a cost-efficient retirement plan that provides lifetime pension payments to public employees and serves to attract and retain a quality workforce.

VISION

IPERS is a sustainable and affordable retirement plan that is valued by all Iowans and provides members with secure income, supports self-sufficiency in retirement, and contributes to local economies.

Governance



What is the role of the Plan Sponsor?

Creates plan

Determines participation

Establishes funding

Determines benefits

Monitors performance against plan goals

IPERS is...



- The largest public retirement system in Iowa
 - 2,100 employers
 - public schools, cities, counties, state government, state universities, State Board of Regents
 - Over 343,000 total members
 - Regular members
 - Sheriffs & Deputies
 - Protection Occupations

IPERS is a Defined Benefit Plan

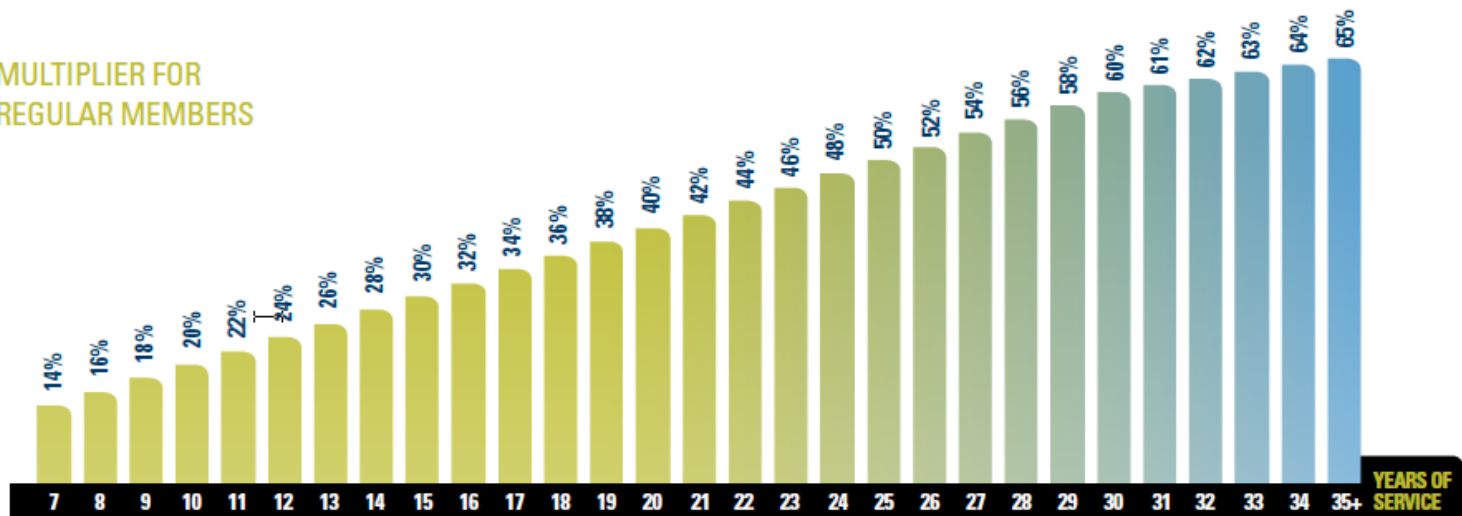
- Paid as a lifetime, monthly annuity
- Amount is based on a formula
- Contributions from employee and employer
- Pooled contributions are invested by professional investment managers

IPERS Benefit Calculation

Average Salary
× Multiplier
– Reduction, If Any*

Annual IPERS Benefit

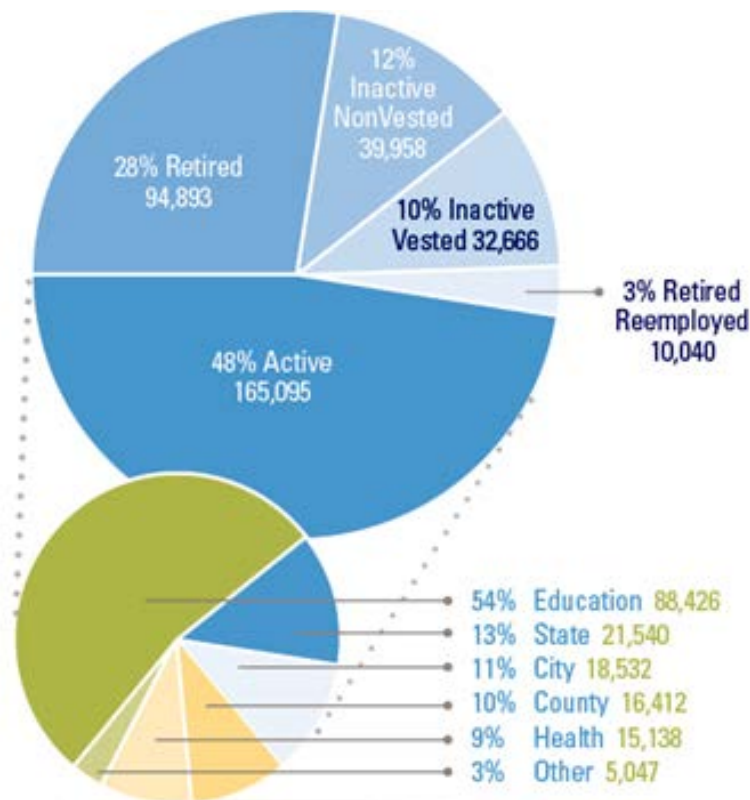
MULTIPLIER FOR
REGULAR MEMBERS



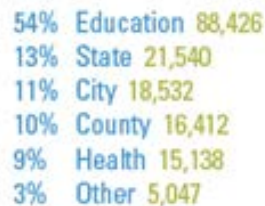
Large Membership Pool



Membership Status



Active Members Grouped by Major Employers



As of June 30, 2013

343,000 Members



Did you know? **One in ten**
Iowans is an IPERS member.

- Over 104,000 retirees and beneficiaries
- \$1.7 billion paid in benefits
 - \$1.5 billion paid to Iowans
- 89% of those payments made to Iowans



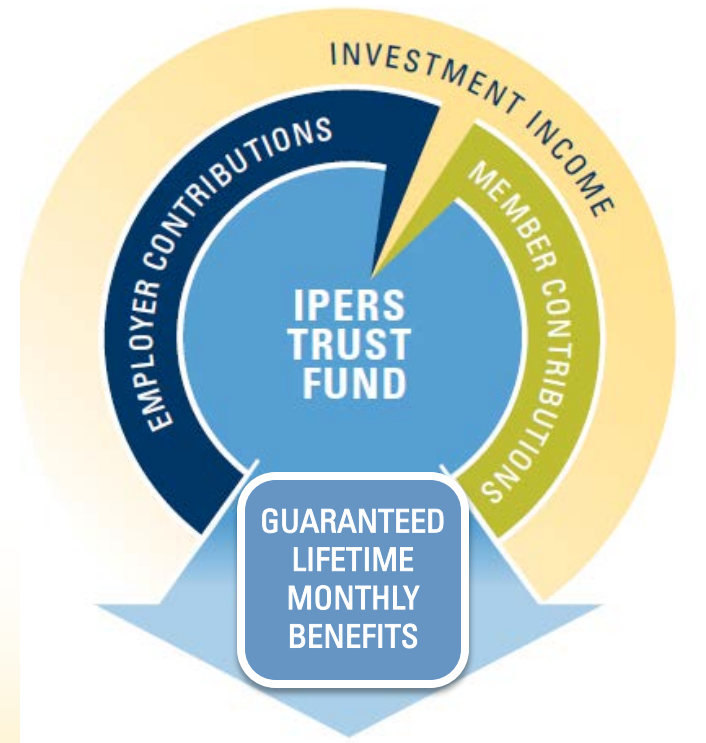
IPERS'
Average
Retiree

Prefund – Not Pay-as-you-go

Contributions + Investments = Benefits + Expenses

Contribution Rates 7/1/13–6/30/14

Membership Class	Member Share	Employer Share	Total
Regular	5.95%	8.93%	14.88%
Sheriffs and deputies	9.88%	9.88%	19.76%
Protection occupations	6.76%	10.14%	16.90%

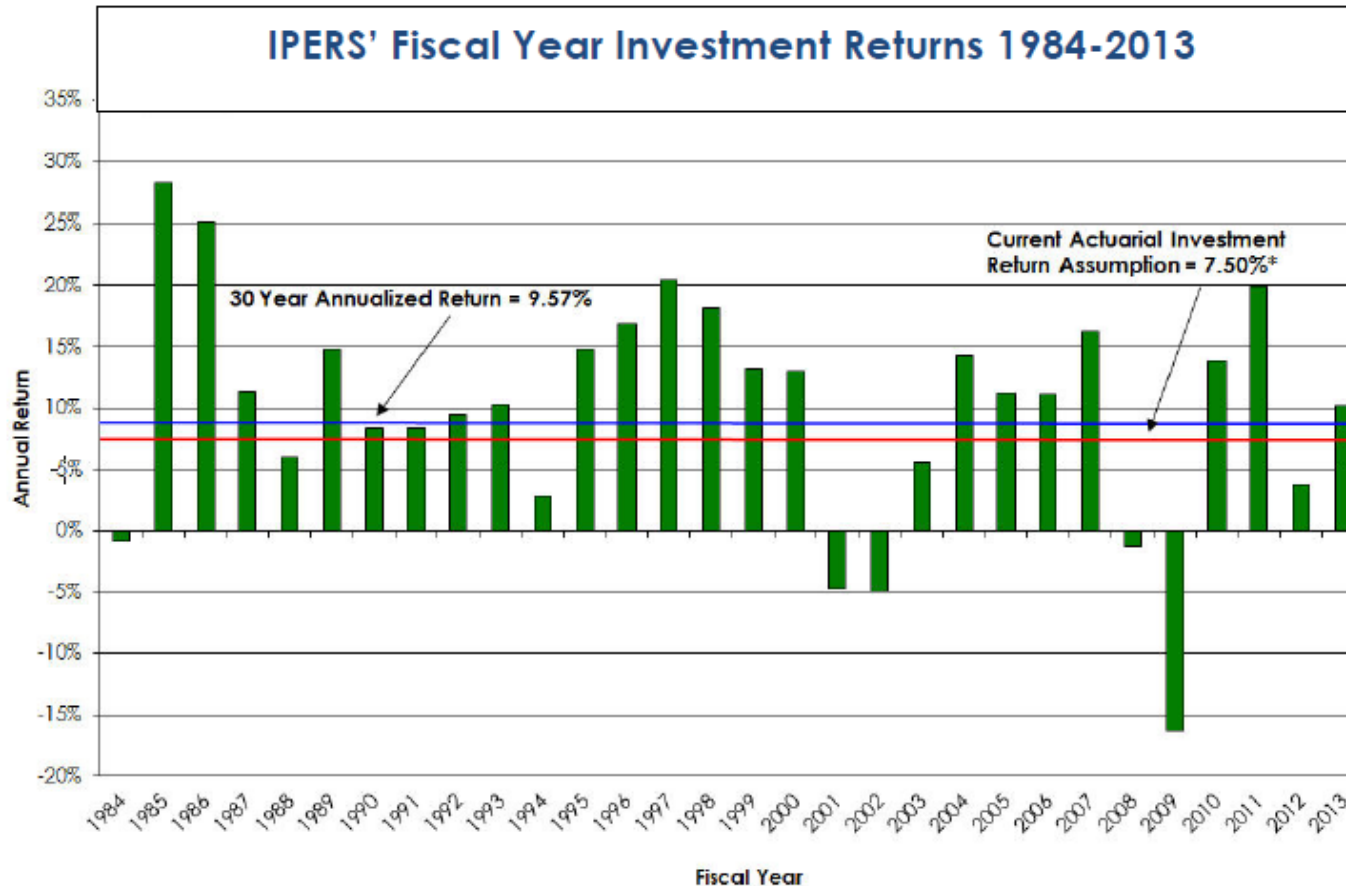


Trust Fund Value



The IPERS Trust Fund market value
as of 6/30/13
is **\$24.8 billion** up from
\$23.2 billion as of 6/30/12.

Investment Returns



Annualized Returns*

1-Year Return	10.12%
3-Year Return	11.06%
5-Year Return	5.48%
10-Year Return	7.78%
15-Year Return	6.55%
20-Year Return	8.47%
25-Year Return	8.82%
30-Year Return	9.57%

For periods ended June 30, 2013

*Actuarial investment return assumption:

1953 – 1993: 6.50%

1994 – 1995: 6.75%

1996 – present: 7.50%

Actuarial Valuations



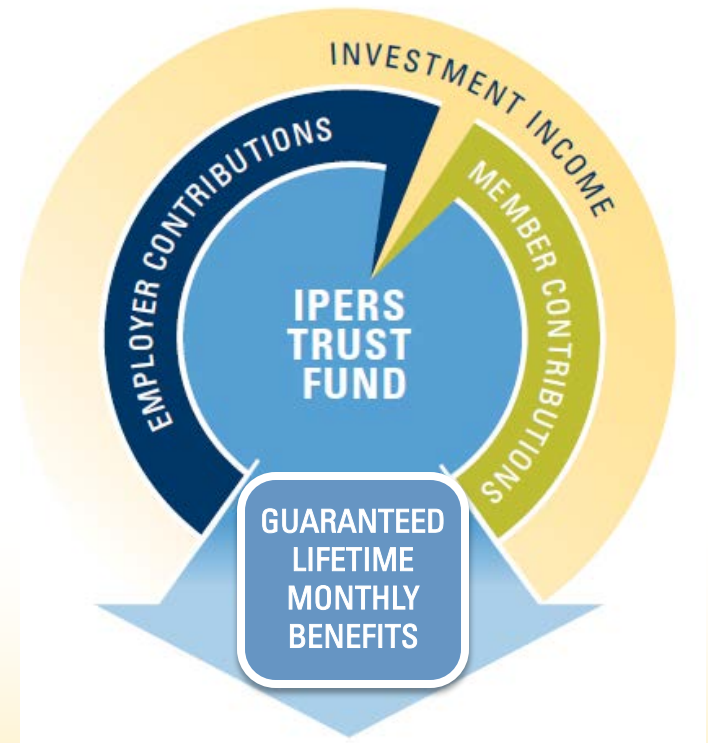
- Annual snapshot as of June 30th
 - Evaluates funded status
 - Evaluates asset and liability measures
 - Determines annual required contributions

Prefund – Not Pay-as-you-go

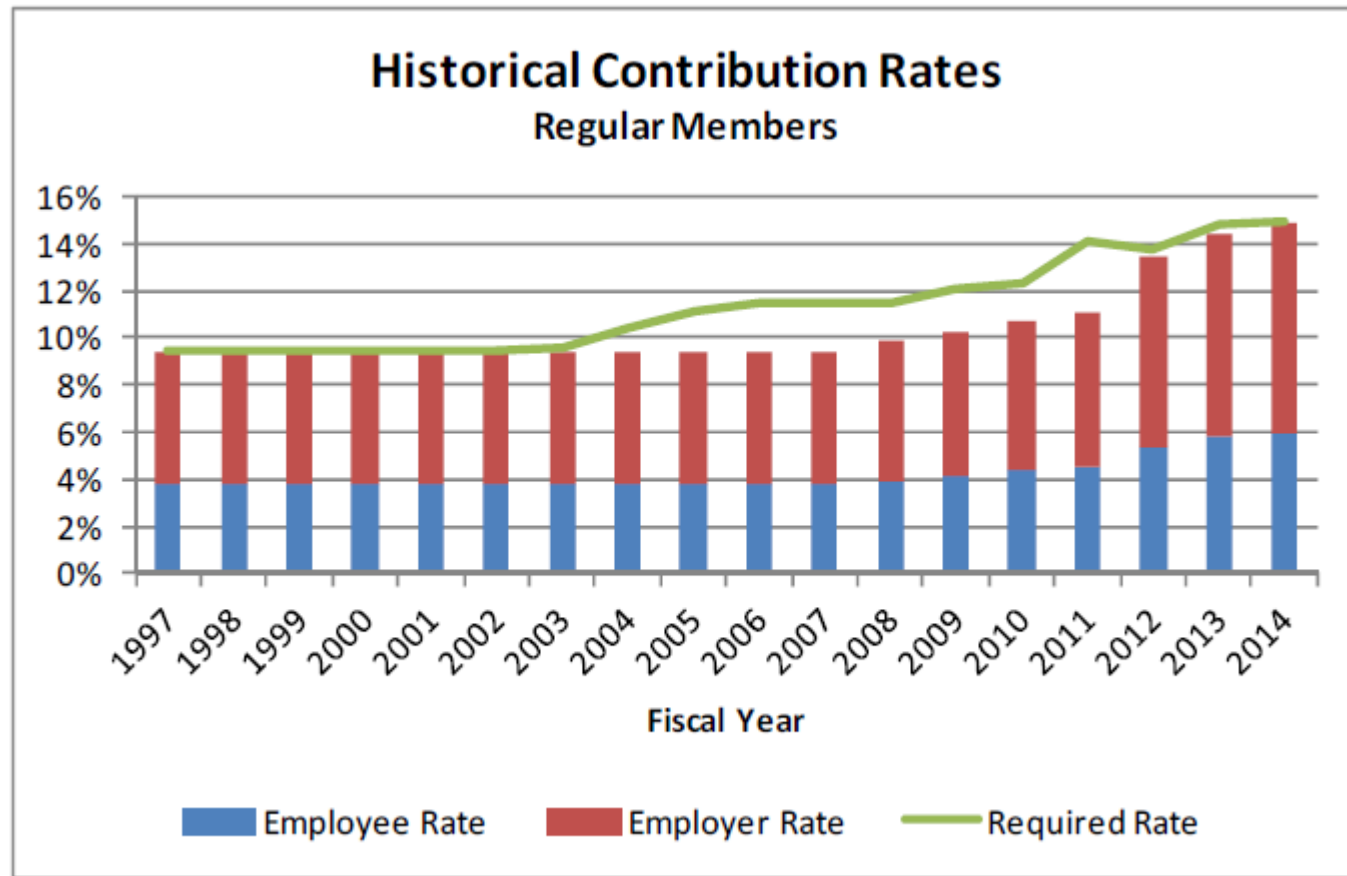
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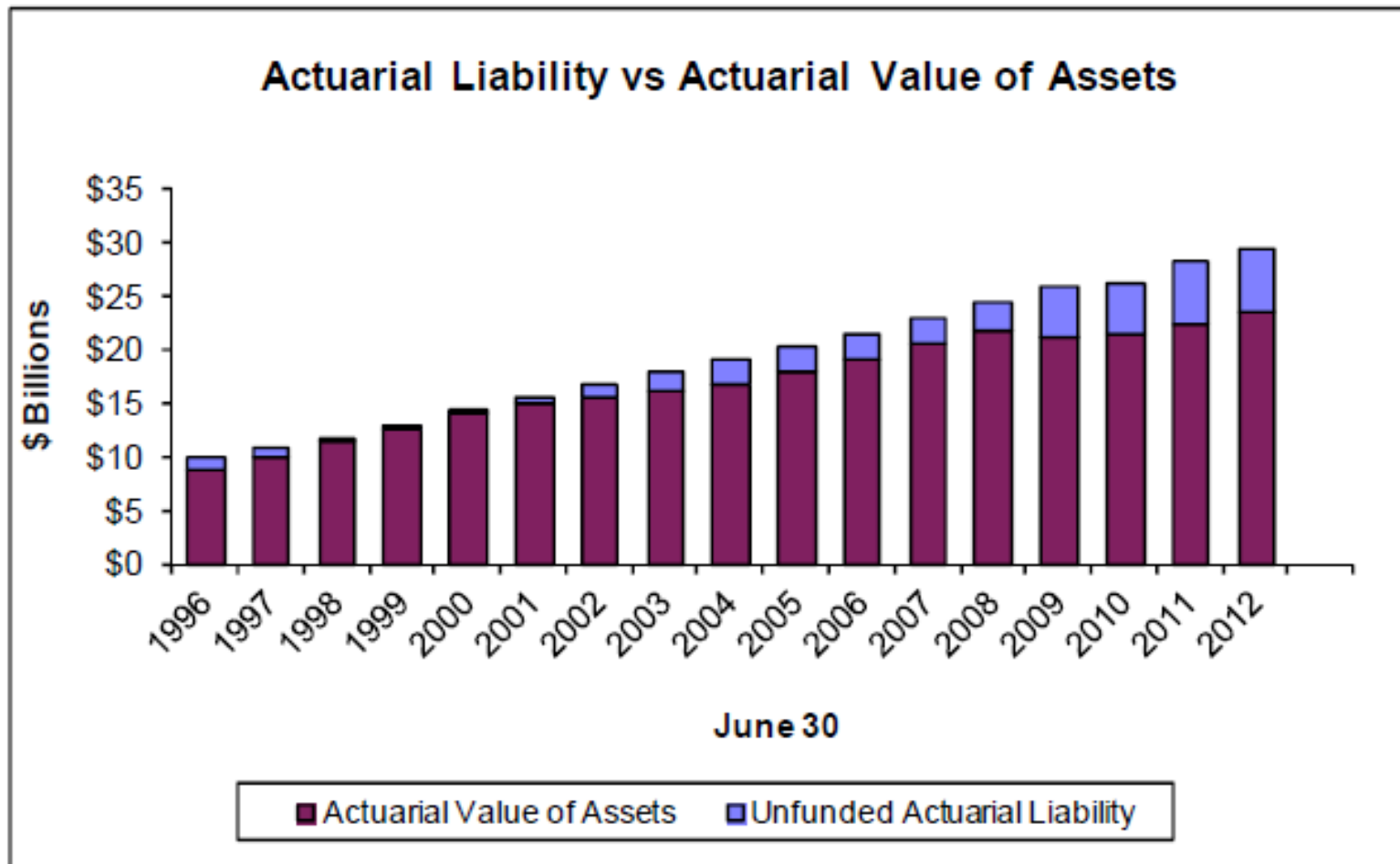
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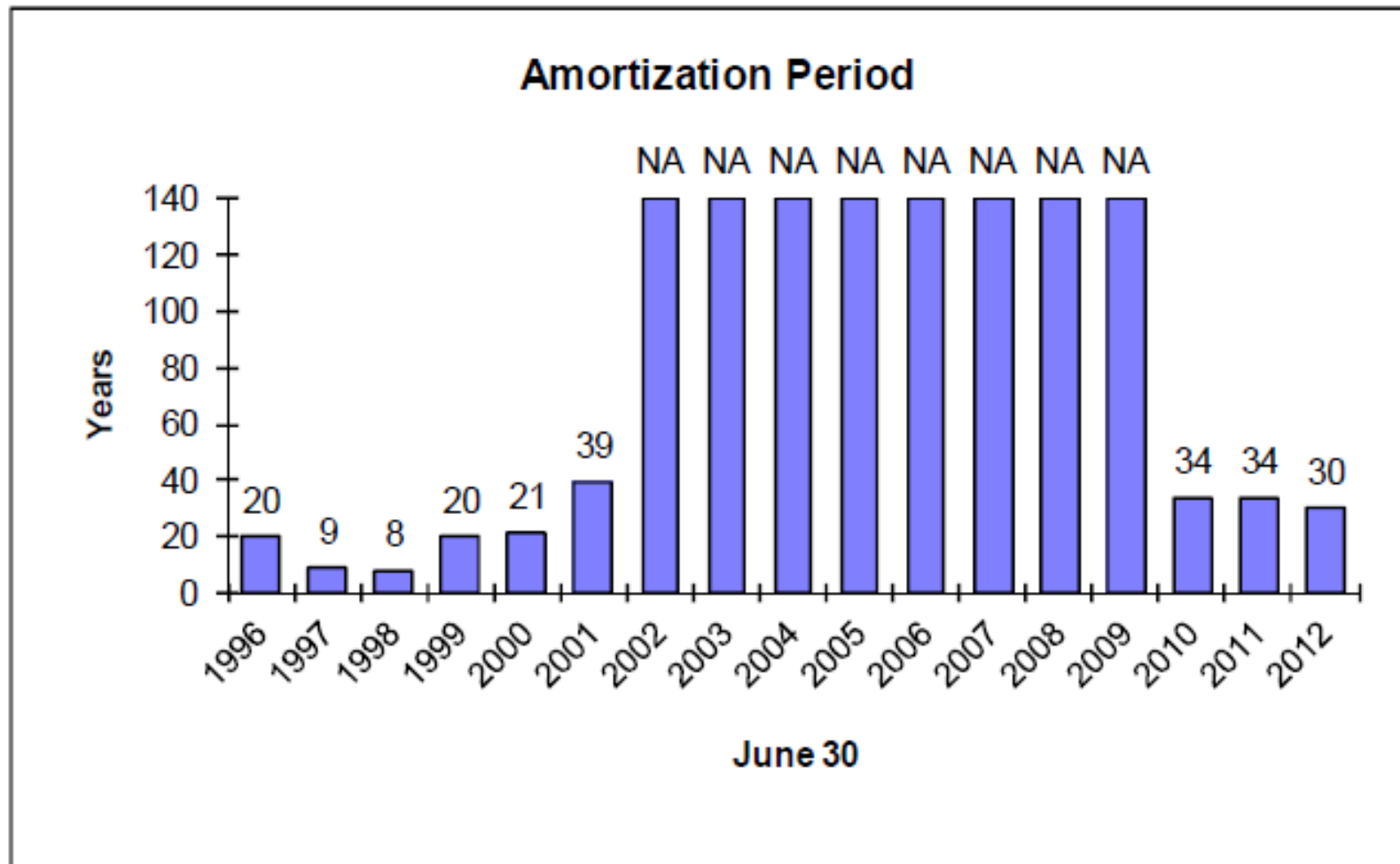
Contribution Rates vs. Required



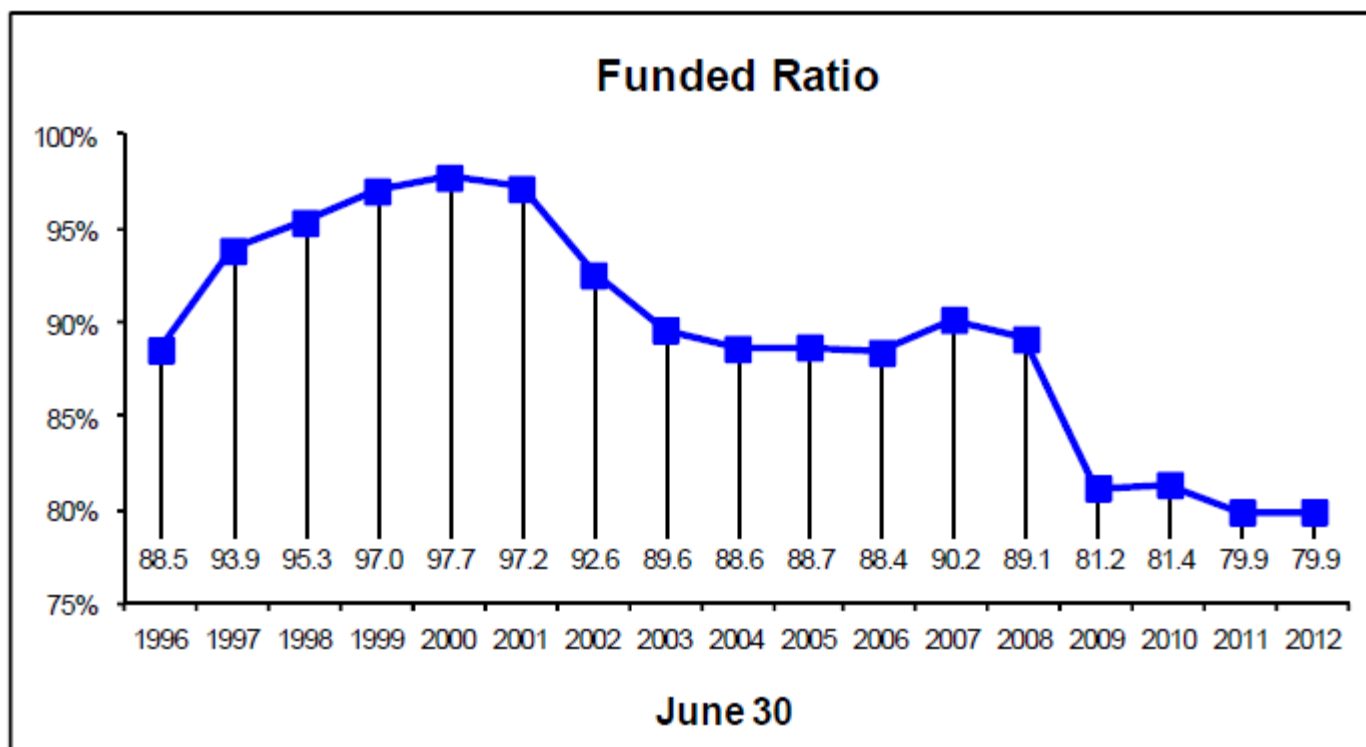
Growth of the UAL



Amortization Period



Funded Ratio



	6/30/08	6/30/09	6/30/10	6/30/11	6/30/12
Funded Ratio	89.1%	81.2%	81.4%	79.9%	79.9%
Unfunded Actuarial Liability (\$M)	\$2,665	\$4,895	\$4,931	\$5,682	\$5,916

Recent Pension Reform

HF 2518 – Passed in 2010



FOR REGULAR MEMBERS

7/2011

- Contribution rates increased

7/2012

- Change in Vesting
- Change in Benefit Formula
- Change in Early Retirement Reduction Percentage
- **IPERS can adjust contribution rates + or – one percent based on actuarial rates**

High 5 Average Change



Prior to 6/30/2012

High **3** year
average

As of July 1, 2012

High **5** year
average

or high 3 as of 6/30/2012
(whichever is greater)

Early Retirement Reduction



Prior to 7/1/2012

Reduce 3% a year for portion of service through
6/30/12

From nearest eligibility
(Rule of 88, rule of 62/20 or age 65)

As of July 1, 2012

Service earned after July 1, 2012, benefits will be
reduced 6% per year from age 65

Cost-of-Living Adjustments



- **November Dividend**
 - Guaranteed
 - Approximately \$8.3 million to an estimated 9,400 retirees
- **The FED Payment**
 - Approximately \$121.6 million to an estimated 93,000 retirees
 - Payments will cease with the January 2014 benefit

FED Transfers & Payments



Fiscal Year	FED Transfer ¹	FED Payments ³	Net Investment Income ⁴	Fiscal Year-end Balance
FY99	229,000,000 ²	(12,152,683)	29,523,325	246,370,642
FY00	264,908,935	(18,797,522)	38,522,151	531,004,206
FY01	108,440,545	(46,219,145)	(22,197,795)	571,027,811
FY02	0	(57,890,007)	(26,518,247)	486,619,557
FY03	0	(25,570,783)	26,210,587	487,259,361
FY04	0	(31,067,817)	67,497,454	523,688,998
FY05	0	(37,178,186)	56,650,354	543,161,166
FY06	0	(43,988,077)	58,021,055	557,194,144
FY07	0	(51,378,132)	86,964,919	592,780,931
FY08	0	(59,512,875)	(8,301,373)	524,966,683
FY09	0	(68,463,353)	(85,779,297)	370,724,033
FY10	0	(78,080,966)	46,466,138	339,109,205
FY11	0	(88,569,816)	59,248,895	309,788,284
FY12	0	(100,428,496)	9,406,974	218,766,762
FY13	0	(113,283,944)	16,559,496	122,042,314
FY14	0	(121,552,670)		489,644
Totals:	<u>602,349,480</u>	<u>(954,134,471)</u>	<u>352,274,636</u>	
¹ FED transfers are made January 15.				
² At June, 1998, Fund did not exist; Fund was seeded with money for 5 years of payments on July 1, 1998.				
³ FED payments are always made in January.				
⁴ Net investment income is applied as of June 30.				

FY13/FY14 amounts are estimates.

What Is GASB?



GASB stands for...

Governmental

Accounting

Standards

Board



To learn more about GASB, go to the GASB website at www.gasb.org.

New Accounting Standards



- Statement No. 67 applies to the **SYSTEM**
 - IPERS' fiscal year 2014
- Statement No. 68 applies to **EMPLOYERS** who utilize GAAP reporting
 - The fiscal year that begins after 6/15/2014

GASB Statements 67 & 68



What the new standards do:

- Breaks the link between actuarial funding and financial accounting

Currently...

- The employer's balance sheet and income statement reports on payment of contractually required contributions

The new standards...

- Require employers to report a share of plan's net pension liability (similar to unfunded actuarial liability) on the their balance sheet

Breaks the Funding Link



- Currently financial reports examine funding progress, disclosure of annually required contribution and percent paid.
- Funding measures still valid and essential.
- The new accounting standards report a dollar value of **pension obligations** in financial reports.
- **Accounting and funding are no longer linked.**

Accounting Terms



Total pension liability (TPL): *actuarial present value of projected benefit payments attributed to past periods of employee service.*

Net pension liability (NPL): *TPL minus market value of assets.*

Pension expense (PE): *the difference between the NPL from the prior fiscal year to the current fiscal year, with some adjustments.*

Total Pension Liability



What is total pension liability?

Similar to actuarial accrued liability in the valuation, but may use a different discount rate.

What will IPERS do with this number?

It will be disclosed in IPERS' CAFR and Required Supplementary Information (RSI).

Discount Rate



Percentage rate used to calculate present value of future cash flow

- ***Actuarial assumed investment return***

- *Set by the Investment Board, is currently used for both accounting and funding purposes.*
- *Can continue to be used for accounting purposes when projected net assets ARE sufficient to cover projected benefit payments.*

- ***Blended rate***

- *Used when the projected net assets are NOT sufficient to cover projected benefit payments.*
- *A blend of the actuarial assumed investment return and a 20-year municipal bond index rate.*

Net Pension Liability



What is net pension liability?

TPL minus market value of IPERS' assets = NPL

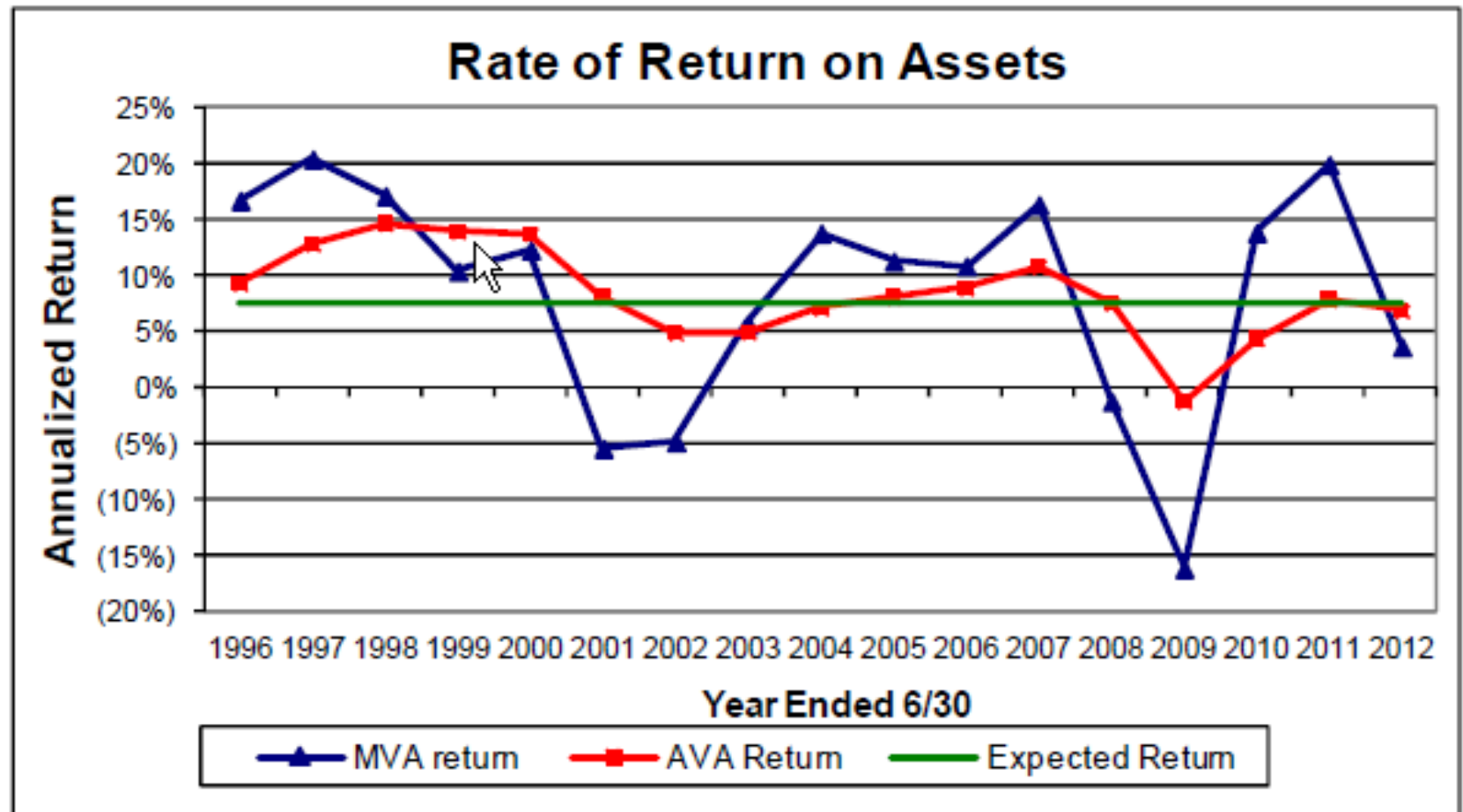
(Similar to UAL)

What will IPERS do with this number?

This will be apportioned among the employers and reported on their financial statements.

- *Ratio of contributions to total contributions*

MVA, AVA & Expected Return



Pension Expense



What is pension expense?

The difference in NPL from the previous year to the current year, with some adjustments the calculations will take into account.

What is done with this number?

This will be apportioned among the employers and reported on their financial statements.

Employers' Responsibilities



This is NEW and IMPORTANT:

- Employers will have to recognize their share of the **net pension liability** (NPL).
- And a new measure of the **pension expense** (PE) on their financial statements.

Employers' Responsibilities



Additional notes and disclosures will be **required**.

Some of the new Notes include:

- Expanded pension plan description
- Information about actuarial assumptions

IPERS and State Auditor are working together on information for employers.

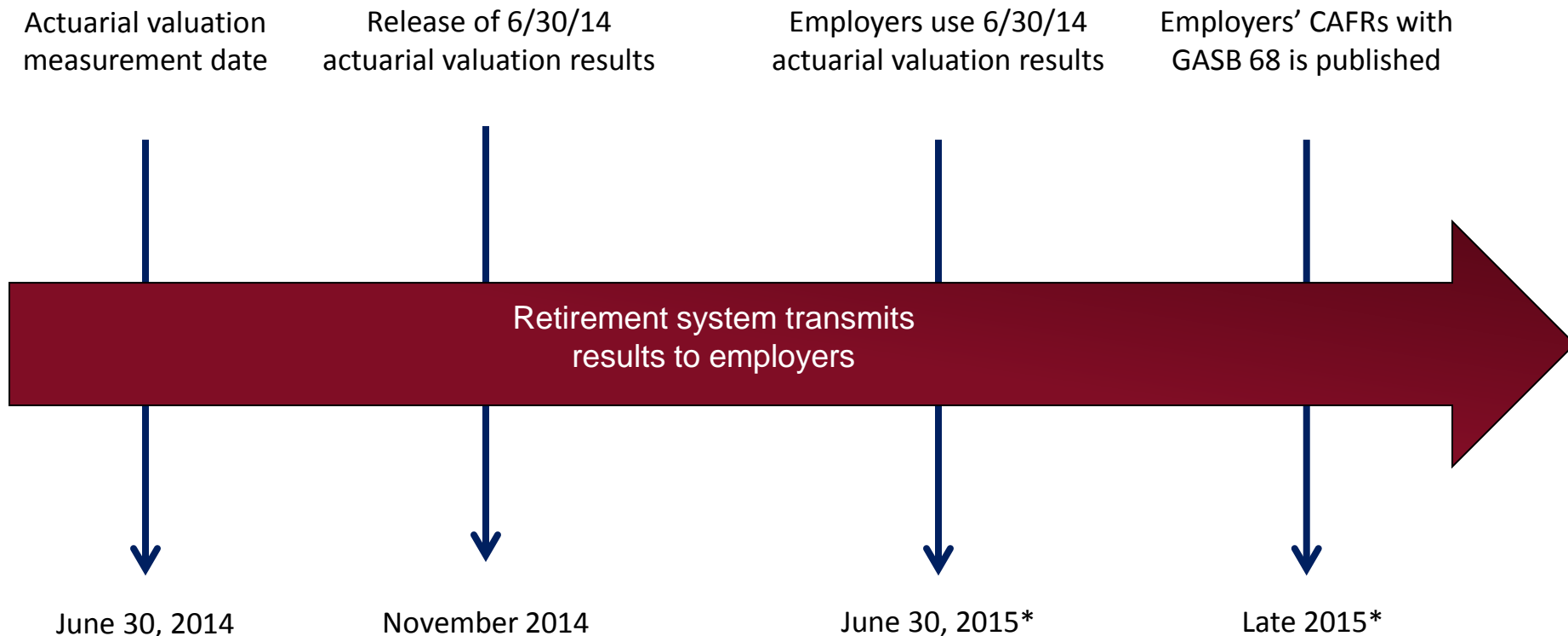
What This Means...



- A **pension liability** on the employer's financial statements.
 - Current standards require pension liability only if contractual contributions not paid.
- A **pension expense** different from the current expense of contributions paid.

Contributions are determined by actuarial methods, not accounting standards.

GASB 67-68 Timeline



There will be a one-year lag in employer reporting of GASB 68 results. In their FY2015 reporting, employers will use FY2014 actuarial valuation results from IPERS.

Other Systems in the News



- **Detroit/San Jose/San Diego/ Illinois**
 - Common theme: **underfunding**
 - Why? Didn't make the actuarially required contributions
 - Rich benefits, such as a 1-year final average salary and COLAs
 - Other contributors to the problem, not just pension debt
 - Diverting pension assets to pay for retiree health care

IPERS' Benefit Package



- More moderate than many
- Reform started 4 years ago
- Contribution rates tied to actuarial rate
 - Investment Board adopted funding policy
- Benefit reductions taken by current, active members
 - No separate tier for new hires

Key Comparisons



Terry Branstad shared a link.

October 17

facebook.



Sound fiscal management! Iowa has the 2nd-best debt/pension rating in the country according to Barron's:
<http://blogs.desmoinesregister.com/dmr/index.php/2013/10/16/report-iowas-state-debt-ranks-second-best-nationally-nebraska-is-no-1/article>



Report: Iowa's state debt ranks 2nd-best nationally; Nebraska is No. 1
blogs.desmoinesregister.com

Barron's financial weekly says Iowa stacks up better than 48 other states in the management of its tax-supported debt and

*Iowa is
second-best in
the management
of its tax-
supported debt
and unfunded
public employee
pensions.*

Sources: online.barrons.com; facebook.com/TerryBranstad; blogs.desmoinesregister.com
October 17, 2013

Investment Return Assumptions

“Over the past 25 years, a period that has included three economic recessions and four years when median public pension fund investment returns were negative (including the 2008 decline), public pension funds have exceeded their assumed rates of investment return.”

IPERS	7.5 %
Public Fund Survey*	7.75%
IPERS' 30-year**	9.57%

Keith Brainard, Research Director

Alex Brown, Research Associate

NASRA ISSUE BRIEF:

Public Pension Plan Investment Return Assumptions

October 2013

National Association of State Retirement Administrators

www.nasra.org

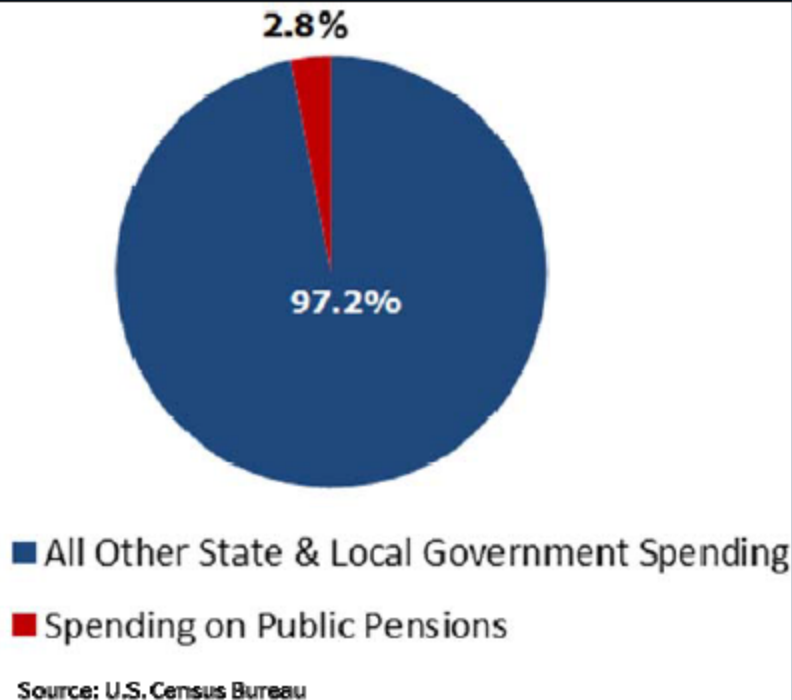
*The survey is sponsored by the [National Association of State Retirement Administrators](http://www.nasra.org) and the [National Council on Teacher Retirement](http://www.nasra.org)
www.publicfundsurvey.org

**Annualized actual return as of June 30, 2013

Three Percent Nationwide



Figure 1: State and local spending on public pensions as percentage of total government spending, 2010



“Based on the most recent information provided by the U.S. Census Bureau, approximately three percent of all state and local government spending is used to fund pension benefits for employees of state and local government.”

Keith Brainard, Research Director

Alex Brown, Research Associate

NASRA ISSUE BRIEF:

State and Local Government Spending on Public Employee Retirement Systems

May 2013

National Association of State Retirement Administrators

www.nasra.org

IOWA

1.73

Our Mission



Administer a cost-efficient retirement plan that provides lifetime pension payments to public employees and serves to attract and retain a quality workforce.

Contact Us



The purpose of this presentation is to provide a brief overview of IPERS. For additional information, feel free to contact us or visit our website at www.ipers.org

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